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MEMORANDUM FOR: Chief, Technical Accounting Staff

SUBJECT : Study of Fiscal and Finance Divisions Workload as Related to Commercial Vendors' Invoices and Claims (Other Than Claims for Travel and Transportation)

1. PROBLEM

Determine the cause for the increased workload in the Fiscal and Finance Divisions as it relates to overt procurement of material and services.

2. SCOPE OF STUDY

This study did not include the procurements of material and services through covert procurement mechanisms, payments made under contracts which are subject to audit by the Industrial Contract Audit Division, Office of the Comptroller, or transportation transactions.

3. FACTS BEARING ON THE PROBLEM

a. Personnel in the Procurement Division of the Office of Logistics advise that:

- (1) The number of purchase orders issued in fiscal year 1962 was 15 percent greater than in fiscal year 1961 and the number of line items ordered in fiscal year 1962 was 21.4 percent greater than in fiscal year 1961. They also advised that there were similar increases in 1961 over 1960. The increase in 1962 over 1961 was largely in the direct procurement transactions which represented 60 percent of the increase.
- (2) They have been striving constantly, to improve procurement procedures and practices with the objective of reducing the number of procurement transactions and have met with little success because of the increasing number of requirements placed on them for procurement and the fact that direct procurement transactions represent such a large percentage of the total procurement.

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- b. Most of the invoices received from commercial vendors are paid from vouchered funds. The total number of invoices processed for payment during fiscal year 1961 and 1962 were as follows:

<u>Division</u>	<u>1961</u>	<u>1962</u>
Fiscal	44,591	44,003
Finance	<u>5,800</u>	<u>2,186</u>
Total	<u>50,391</u>	<u>46,189</u>

An analysis of the records revealed that the number of invoices processed by the Fiscal Division dropped from a weekly average of 857 in fiscal year 1961 to 846 in fiscal year 1962, whereas the number of invoices processed by the Finance Division dropped from a weekly average of 100 in fiscal year 1961 to 41 in fiscal year 1962.

- c. The difficulties being encountered by the Fiscal and Finance Divisions in processing commercial vendors' claims were found to be:

- (1) Receipt of invoices for services and repairs made to the Agency equipment not supported by properly signed work orders.
- (2) Delay in transmittal of receiving reports from the Office of Logistics.
- (3) Invoices fail to show identification of the Agency purchase order number. The purchase order numbers are necessary in the audit process to locate the purchase orders. In such cases before processing invoices for payment, they are returned to vendors with a request that the purchase order numbers be indicated on the invoices.
- (4) The large volume of invoices received covering partial deliveries on orders placed; for example, a purchase order placed with [REDACTED] for 15 line items of material could result in a billing for each item, if they were separately delivered.
- (5) Delay in release of obligating documents by the Accounting Branch, Fiscal Division because of the month end reconciliation of obligation documents with the obligation controls. The purchase orders, invoices and receiving reports must be attached to the invoices before the invoices are processed for payment. This delay in processing invoices sometimes results in the loss of discounts.

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a. DISCUSSION OF THE PROBLEM

a. The principal factors which contribute to the increased workload of the Fiscal and Finance Divisions are the increase in the number of purchase orders and the failure by the Office of Logistics to transmit promptly the receiving reports which are needed to process commercial vendors' claims. Delays in transmitting these reports promptly after the material and services have been received results in correspondence from the vendors to request payment of their invoices, preparation of replies to vendors' correspondence, lost discounts, duplicate bills, telephone calls to the Office of Logistics to obtain receiving reports, etc., all of which add significantly to the workload and cost of operation. There appears to be a need for emphasis to the Office of Logistics on the importance of promptly forwarding receiving reports and discrepancy reports to the appropriate Division of the Office of the Comptroller.

b. The large number of commercial vendors' invoices being received by the Agency (paragraph 3c(4)) stems from the current business practice of many vendors who bill customers simultaneously with each shipment of material made from their warehouses irrespective of the dollar amounts involved. Cursory review of invoices with related

three to seven invoices were submitted for each purchase order. A substantial number of invoices for small amounts are received from these suppliers during the course of each month. For example, the [REDACTED] submitted an average of 40 invoices a month and the [REDACTED] about 27 invoices

a month. A review of the payments made to the [REDACTED] on March 28, 1962, shown on three Standard Forms 1166 - Voucher and Schedule of Payments listed thirty-three invoices of which twenty-six were for sums ranging from thirty-six cents to fifty dollars. One of the [REDACTED] invoices was for two line items delivered against a purchase order for 31 line items of material. seldom do the vendors supply in one delivery all of the items of material listed on a single purchase order. Therefore, though it may be efficient and economical for the vendors to bill as they ship the material from their warehouses, it has created a significant workload and processing problem in the Fiscal and Finance Divisions.

c. A particularly troublesome processing problem of the Fiscal Division relates to service maintenance invoices received from vendors which are supported by a high percentage of improperly signed work orders (paragraph 3c(1)). Before such invoices can be audited and paid, the

Improperly signed work orders must be returned to the cognizant component for correct signature and then to the authorized building supply officer for approval. This problem was brought to the attention of the Office of Security and a request was made that a Headquarters Notice be circulated to remind all employees of the requirements of [REDACTED] 25X1A page 10, paragraph (3) which provides that any employee assigned to acknowledge performance of the service or repair of Agency equipment is to certify that the services have been performed by signing the work order with the name of [REDACTED] followed by the employee's initials. The Office of Logistics is also trying to eliminate improperly signed work orders.

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4. The delay of seven to ten days in the flow of purchase orders and other obligating media from the Accounting Branch to the Fiscal Processing Branch following the close of the monthly accounting period is an internal Fiscal Division problem which delays the processing of invoices and sometimes leads to loss of discounts. It appears that the most practical solution to this problem is for the Fiscal Processing Branch to request the Accounting Branch to thermafax each purchase order needed to support an invoice which must be processed for payment in order to avoid losing a discount. Alternative solutions have been discussed and tried but they have not solved the problem.
 7. Although claims received from vendors without identification of Agency purchase order numbers are not large in volume they are of a sufficient number to cause a bottleneck in processing by the Fiscal and Finance Divisions. Needless man-hours are expended in research to obtain the obligating documents required for processing such claims. The current procedure of writing to the vendor for citation of the order number to which his claim is related or contacting the Office of Logistics for the information, while not solving the problem, are the only practical approaches that can be taken under the circumstances.
 8. Invoices submitted by vendors offering discounts are given priority and, in spite of the heavy volume of invoices, few discounts are lost. The Finance Division records revealed that for the period October 1961 through March 1962 an average of two discounts a week were lost, averaging less than \$4.00 each. The Fiscal Division loss of discounts are few in number and small in amount. Loss of discounts by the Fiscal Division is usually due to the internal delays of forwarding purchase orders or other obligating media from the Accounting Branch to the Fiscal Processing Branch during the close of the monthly accounting periods. Discounts offered by vendors range from one percent ten days to as high as 34 percent net thirty days. Examples of vendors offering substantial discounts are [REDACTED] (20 percent net thirty days (maintenance service invoices)) and [REDACTED] (34 percent net thirty days).

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6. Because many vendors make partial shipments and bill for each shipment, the discounts offered are often quite nominal, particularly when the discount offered is one percent within ten days. Arrangely an effort is made to take every discount offered, however, small it may be. The result is that checks are written promptly when discounts are offered and in many cases the amount of the discounts is less than the savings that would be accomplished if all invoices of the vendor for the month were consolidated and a single check drawn.
7. RECOMMENDATIONS
- a. It is recommended that a memorandum be sent to the Director of Logistics advising him of the problem being experienced by the components of the Comptroller's Office in processing commercial vendors' invoices because of the delay by his Office in forwarding receiving and discrepancy reports, and requesting his assistance in seeing that effective procedures are internally established to expedite transmittal of these reports.
- b. It is recommended, with respect to billings submitted by commercial vendors which bill simultaneously with partial shipments of material on orders placed with them, the Office of Logistics be requested to arrange with vendors to provide that all vendors charges to the Agency may be paid on a monthly basis.
- c. It is recommended that a policy be adopted whereunder small discounts will be waived in instances where a vendor renders several invoices during the month and the sum of the discounts offered on them is less than the savings that would be accomplished if all the invoices from the vendor were paid by a single check.
- d. It is recommended that the Fiscal Processing Branch, obtain from the Accounting Branch, theretofore copies of the purchase orders and other obligating media needed for processing vendors' invoices which must be processed for payment in order to avoid losing discounts.

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Member,
Technical Accounting Staff

COPIES:

Deputy Comptroller

Date

Chief, Technical Accounting Staff

Date

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